



Mr John Pierce AO
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online: www.aemc.gov.au

12 August 2019

Re: Submission on Co-ordination of Generation and Transmission Investment Directions Paper

Dear Mr Pierce,

Tilt Renewables is a leading Australasian renewables developer engaged across all stages of project development through to operation. Tilt Renewables currently has 636 MW of operational wind farms across the NEM and New Zealand, plus a further 336 MW currently in construction and over 3 GW in its development pipeline.

Tilt Renewables thanks the AEMC for inviting stakeholder input on this important proposal, and for responding to the industry's views on the consultation paper, including by revising the proposed staged implementation approach. However, Tilt Renewables has significant concerns about the direction of this proposal and does not agree that it addresses the key issue of co-ordination of generation and transmission investment. We strongly suggest the AEMC consider the interaction with other concurrent changes and the effect of this uncertainty on participants, including the post-2025 market design. We urge the AEMC to provide a clear cost-benefit analysis supporting these major market changes, particularly in demonstrating the real cost and risk of transmission overbuild that this proposal aims to avoid and how this proposal will practically ensure appropriate transmission is actually built where and when required. We suggest that simpler alternatives would be more effective.

Tilt Renewables is committed to a low-carbon future and sees efficient transmission development as essential in enabling the continued transition of the NEM through the strong flow of private investment in generation. Key to the strong flow of private investment in generation at the lowest cost to consumers is investment certainty. Investment certainty attracts lower rate of return capital, in turn increasing levels of generation investment and driving lower contract and wholesale energy prices, leading to lower costs for consumers. Certainty of transmission access, timing and cost are critical components of the investment certainty needed to fund a generation project. Our view is that the CoGaTi proposals to date entail significant complexity and risk and would be likely to reduce investment certainty, rather than increase it.

Tilt Renewables sees two high-level issues that CoGaTi needs to address – that of how to get

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generation projects developed and built in efficient locations, and that of how to identify and effectively execute the building of appropriate transmission. CoGaTi in its current proposal appears to address only a side issue of the efficient dispatch of storage through nodal pricing.

On the first issue, how to get generation projects built in efficient locations, Tilt Renewables does not agree that the complexity of nodal pricing and financial transmission rights (FTRs) will improve the decision making of generators. Generators make investment decisions based on a range of factors including forecasts of market prices, curtailment and losses. The difficulty in forecasting nodal prices is no different to forecasting MLFs, in that both require significant assumptions to be made on future generation connections, future demand growth and location, and transmission development. The real issue here is the quality of the forecasts and the knowledge of developers and investors. Improving the quality of information provided to the market, to enable better and more consistent forecasts, and the publication of better information on likely future generation connections, is an approach more likely to lead to more efficient generation location. A clear framework for the implementation of the Integrated System Plan (ISP) will provide further certainty in these forecasts on what makes a good location to connect.

Tilt Renewables is concerned that the CoGaTi proposals do not address the second key issue of how to efficiently develop transmission. While we see the appeal to the AEMC in a holistic solution, we do not agree that it is feasible for transmission and generation co-ordination to occur on a region- or NEM-wide scale. We consider instead that there are two issues to solve here – large-scale transmission development and deep-network augmentation (best handled by the ISP given the complexity and timing issues), and smaller-scale transmission efficiencies in connecting small sets of new projects (where firm access may be of value).

In concept, firm access, one of the AEMC's goals in CoGaTi, is attractive to developers as it would provide more certainty of revenue. However, in the implementation proposed by the AEMC, Tilt Renewables is unclear how firm access could feasibly be priced if it applies for all transmission access to the RRP, into the deep network. It would be infeasible for a generation project to estimate the value, over a necessarily extended time horizon, of transmission hedges for some future network configuration, given the complexity of the meshed network and loop flows, and other issues such as system strength. We consider that firm access may be more suitable for smaller-scale transmission developments where free-rider behaviour needs to be managed. For large-scale transmission building, we see the ISP, coupled with a reformed RIT-T process, to be more appropriate.

On the co-ordination, the Directions Paper suggests that selling transmission hedges forward could guide transmission development. The variety of options presented in the Directions Paper makes it clear that the AEMC is considering the timing issues involved, which Tilt Renewables sees to be a key impediment to this approach working. Generation developers cannot justify large long-term financial commitments (such as would be required at an auction of transmission hedges) several years in advance of the transmission connection being available. For a generation developer, firm commitment to a given project comes shortly prior to and then at financial close of the project, which is when all of the components of the project are lined up – land access, planning and environmental permits,

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generator supply contracts, offtake agreements, construction contracts, transmission contracts, and the availability of both debt and equity finance. The probability of these timings aligning between a number of discrete projects from different developers but the same geographical area, and which may require the same future transmission connection, is limited.

On a smaller scale however, there may be co-ordination that could work, if done in a practical way that considers the timing and funding of generation projects. We urge the AEMC to reconsider the transmission bonds approach, where generation developers commit a smaller monetary amount to confirm their willingness to connect at a location before the NSP builds, and to reconsider if a simpler approach to firm access, such as limiting new connections to this new transmission for some time, may be sufficient. The Directions Paper discusses approaches to pricing transmission hedges including a "fair price" and "incremental cost" approach. We suggest such approaches may be better applied in providing pricing for entry to a small-scale transmission development, to give clear and simple price signals to developers.

Overall, we highlight the need for deep consultation regarding changes as fundamental as those proposed in the Directions Paper, which would have broader impacts on the wholesale electricity market than the title of the paper may immediately indicate. We also suggest full analysis and consideration of a range of possible alternatives including consideration of international experience, given the potentially major impacts of the changes proposed in the Consultation Paper on the operations of and future investment in the NEM. It is our view that a combination of simple and practical tools to address specific problems will be more effective than the highly complex approach proposed, which may ultimately create more challenges than it resolves.

Tilt Renewables will be pleased to meet with you to further discuss this submission and will be happy to participate in further consultation processes. Please contact Marcelle Gannon at marcelle.gannon@tiltrenewables.com or 0409 799 095.

Regards,

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